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OFFICE OF THE CITY MANAGER

TO: Bob Healy, Cambridge City Manager  
FROM: Peter Daly, Executive Director  
DATE: May 19<sup>th</sup>, 2009  
SUBJECT: Malik Academy

808 Memorial Drive is owned by a limited partnership of which HRI and the residents are managing general partners. The property consists of 300 units of rental housing (211 affordable and 89 market) and approximately 38,000 sq. ft. of market commercial space. The business model that we have always used for this property is that the market residential and commercial help subsidize the 211 affordable units.

Malik Academy came to Winn Management (who handles all operations) approximately three years ago looking to rent some commercial space. They expressed interest in a space (4650 sq. ft.) that was a little larger than they were needing, but they expected to expand and grow into it. In consideration of their expansion, we gave them a concessionary rate of \$15/sq. ft. (including heat and water/sewer) for 3 years. They were also provided a \$20,000 build out/improvement allowance which they decided to use instead toward rent payments. However, we advised them that we would likely be looking for a rent increase at renewal. The term expires August 31, 2009.

A few months ago, Winn approached Malik Academy as we do with all lease expirations, to see if they were interested in a renewal. They indicated that they were, and Winn provided them with a proposed 5 year rent structure of \$16/sq. ft. in year one that increased by a dollar a square foot per year. It should be noted that current commercial rents at 808 Memorial Drive average over \$22/sq. ft., so the offered rent was 38% lower than other tenants. They responded that they expected a rent decrease since they believed that market rents had declined. Winn

responded that since they started out below market, and market rents of this class in Cambridge had not declined significantly, the proposed rents were still below market.

Malik Academy insisted that they could find plenty of space in Cambridge that was lower than our proposed rates and they might move to another location. They asked for a letter of recommendation to show new potential landlords stating that they were good tenants and Winn complied. In anticipation of a possible vacant space, Winn put out feelers for a new tenant and received an offer from another day care provider that is significantly higher than the proposal that Malik Academy rejected. Since there was no movement with Malik Academy on their position, we accepted this new offer from the other day care provider.

As you know, our commitment to the residents at 808 Memorial Drive is very strong. However, we are deeply concerned not only about the effects of state budget cuts but also about the impact of the economy on our residents, and their ability to pay rent. We feel very confident that Malik Academy was offered a below market rent. In fact, the difference in our proposal to Malik Academy and the new day care provider would represent a significant rent loss to us over the *term* of the lease. The lease they proposed would represent a rent loss to us in excess of \$100,000 over the term of the lease.